

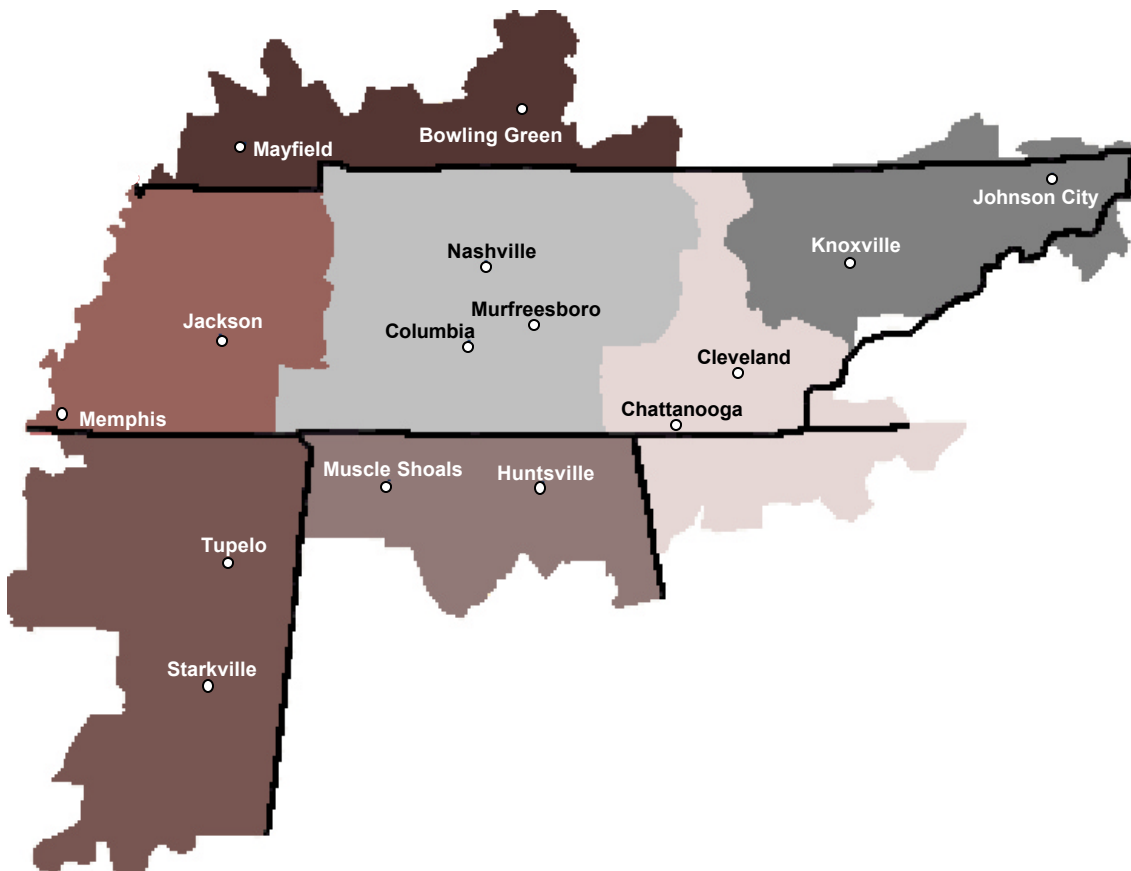
Customer Service

TVA's production of low-cost, reliable power, part of its mission of generating prosperity in the Valley, is a significant factor in the unprecedented growth and low unemployment of the Tennessee Valley region. By producing power as economically as possible, TVA helps consumers meet their energy needs affordably and supports businesses across the Valley in keeping the costs of their products and services competitive.



Just as the competitive environment is changing for TVA, it is also changing for TVA's customers. TVA is working closely with distributors and directly served industries through numerous initiatives to help give them a competitive edge in their markets.

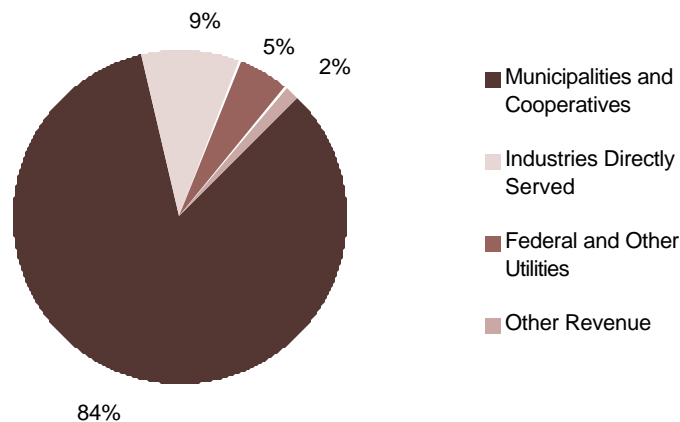
TVA's Customer Service Center Locations



TVA's Customers

TVA is a generator and provider of power to municipalities, cooperatives, large industrial customers, and federal agencies.

TVA Power Revenues By Customer



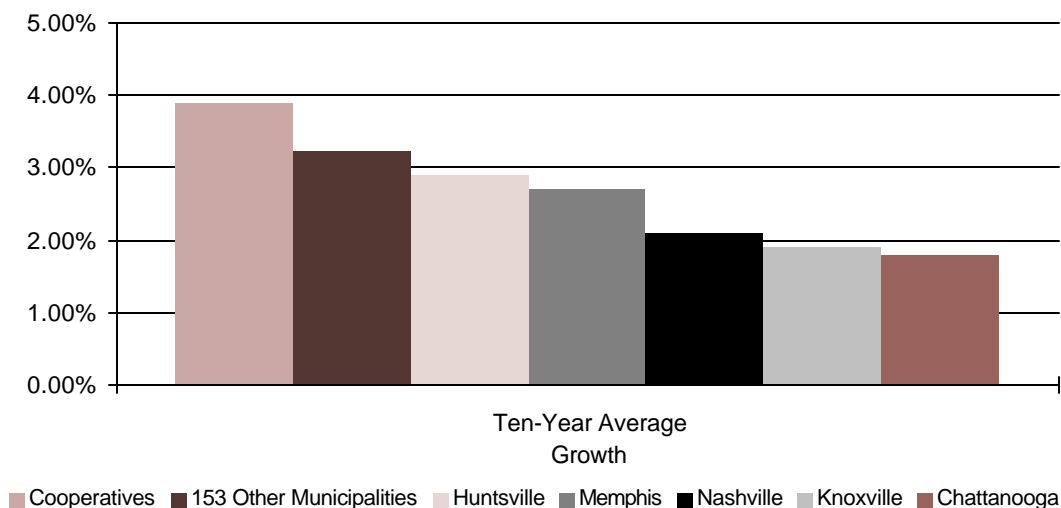
Municipal and Cooperative Distributors

TVA sells electricity to 108 municipal and 50 electric cooperative distributors who distribute the electricity to residential, commercial, and industrial consumers. Together, TVA and distributors of TVA power serve 8 million consumers within an 80,000 square-mile service area.

Municipal and cooperative power distributors are TVA's two largest groups of customers. In FY2000, 84 percent of TVA's power revenues came from electricity sales to these power distributors.

TVA system sales over the last decade have increased an average of 3 percent annually. Cooperative distributors had the largest percentage increase in kilowatt-hour sales growth averaging nearly 4 percent annually for the last 10 years, compared to 2 percent average annual growth rate for the five largest municipal distributors of TVA power.

*Ten-Year Average Annual Percent Growth in Kilowatt-hour Sales
Five Largest Municipalities Compared to All Other Distributors of TVA Power*



Large Industries and Federal Agencies

TVA provides electricity directly to approximately 55 large industries with large or unusual loads and several federal agencies. Industrial customers represent a mix of large manufacturing industries, including pulp and paper, chemicals, automotive, and textiles. Federal agency customers include military installations. These directly served customers are generally large consumers of electricity, relying on TVA's high-quality power to consistently meet the increasingly strict technical requirements of today's advanced electronic equipment.

In FY2000, 14 percent of TVA's total power revenues came from purchases by these customers. This segment also includes sales to other utilities in the area surrounding TVA's service territory.

Customer Initiatives

Wholesale Energy-to-Market

In April 2000, TVA began the Wholesale Energy-to-Market pilot program for interested distributors in the Tennessee Valley. The pilot program allows participating distributors to gain actual market experience by making weekly purchase arrangements for an amount of power up to 5 percent of their 1998 average weekly energy requirements and arranging for its delivery through the TVA system. The minimum block size for a weekly purchase is 25 megawatts, but contractual arrangements will allow distributor systems to aggregate their purchases with those of other distributors.

Distributors have the potential to save money under this program whenever they can purchase energy on the market at prices less than TVA's system value. Risks to the distributor are minimized because TVA remains contractually obligated to provide power to support the distributor's entire requirements even if a distributor's purchase arrangements with another utility are interrupted. The distributor would pay any additional costs incurred by TVA in the event of any disruption of the purchase arrangements made by the distributor.

Variable Price Interruptible (VPI) Power

In response to requests from its customers brought about by changes in the electricity market, TVA and distributors of TVA power introduced a new interruptible product that will replace Economy Surplus Power (ESP). The new Variable Price Interruptible (VPI) product is similar to ESP in many ways but offers new arrangements to respond to concerns customers expressed regarding ESP's price volatility, price uncertainty and pricing methodology. VPI also offers customers additional opportunities to lower their average year-round cost of electricity.

VPI benefits the Tennessee Valley by allowing TVA to reduce the amount of power it must buy on the days when electricity is priced highest and when power availability is extremely tight.

The VPI product design is a result of numerous discussions with former ESP customers, representatives of the Tennessee Valley Public Power Association, the Tennessee Valley Industrial Committee, and the Associated Valley Industries.

Capacity Buyback

Valley customers with the operational flexibility to reduce power loads or operate onsite generation during the summer period (June 1-September 15) are eligible for TVA's Capacity Buyback Program. The demand reduction can be achieved by reducing a portion of the load or by transferring all or a portion of the load to onsite generators. The capacity could also be met by operating onsite generation that is connected to the grid.

This product will include both a capacity and an energy component. The capacity payment will be made for the summer peak period even if there are no TVA calls for capacity. This product also offers flexible options that allow the product to be tailored to customer needs.

Economy Buyback

The TVA Economy Buyback Program is designed for Valley customers who have flexible electrical loads that can be reduced when the market reaches a specific price, or who have the ability to respond to day-ahead prices posted on an electronic exchange. The demand reduction can be achieved by reducing a portion of the load or by transferring all or a portion of the load to onsite generators. Economy Buyback could also be accomplished by operating onsite generation that is synchronized to the grid.

The Economy Buyback product offers financial benefits to large directly served and distributor served commercial or industrial customers for electricity reduction during TVA's summer peak periods (defined as May 15-September 15). This program offers flexible options that allow the product to be tailored to customer needs.

Engineering and Technical Consulting

To meet the needs of existing commercial and industrial customers in the Tennessee Valley, TVA and distributors of TVA power work together to provide engineering and technical expertise in all areas of energy use, including lighting, HVAC, wiring, industrial processes, and load management. In addition to helping customers use energy more efficiently, these programs have been instrumental in retaining jobs throughout the region.

Automated Summary Billing Pilot

TVA and distributors of TVA power are focusing attention on regional accounts—customers with multiple locations throughout the Tennessee Valley. An automated summary billing pilot will provide one bill to customers with multiple Valley facilities, which makes billing and payment more convenient while allowing a company to analyze utility costs across its operations.

Service Offerings

TVA's objective is to retain all 158 of its power distributor customers by providing a high level of customer satisfaction through a variety of programs and services.

Customer Service Programs

- **Account Management**—Each customer is served by a TVA Customer Service Manager who connects the utility or directly served customer with the spectrum of services offered by TVA.
- **Emergency Assistance**—During emergencies, such as those due to severe weather, TVA provides information and support to distributors and directly served customers.
- **Comprehensive Services Program**—TVA works with its customers to help provide engineering and technical assistance for commercial and industrial energy users. Assistance is available for all areas of energy use: lighting, heating and cooling, wiring, water heating, industrial processes, load management, and commercial cooking.
- **Coordination of Customer Reliability Improvements**—TVA works closely with its customers to ensure that it has the delivery points required to meet their system needs.



Green Power SwitchSM

TVA, working with a team of environmental groups and distributors of TVA power, in April 2000 became the first in the Southeast to offer consumers the opportunity to underwrite the production of power from cleaner, renewable resources—solar, wind, and landfill gas. The Green Power Switch program began as a one-year market test and reflects TVA's commitment as a publicly-owned utility to develop low-impact energy sources. Additional power distributors in the Valley have expressed interest in offering Green Power Switch in 2001. TVA expects to expand the program and make it available Valley-wide by 2003.



energy right[®]

Local power distributors, in conjunction with TVA, offer residential consumers and small business owners programs designed to help achieve maximum energy efficiency. The *energy right* Residential Program helps homeowners achieve energy efficiency by providing special financing incentives, home energy surveys, and other services related to newly constructed homes, new manufactured homes, heat pumps, and water heaters. The *energy right* Small Business Pilot Program encourages the installation of energy-efficient equipment in small businesses. These programs are designed to help consumers increase efficiency, improve comfort, control costs, and solve energy problems.